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CANADIAN BANKING

By H. M. P. ECKARDT,

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It was remarked by an American writer a few years ago, when the tide of immigration had begun to run strongly towards the prairie provinces, that the capacity of the Canadian banking system would be severely tested by the abnormal influx of population. Railway construction was active; and many of the newcomers, especially the farmers from the western states, were large-scale producers. So there has been continuous need of extensive banking facilities. The following table shows the growth in ten years of the four western provinces:

Provinces	Population		Increase Per cent
	1911	1901	
Alberta.....	374,663	73,022	413
British Columbia.....	392,480	178,657	120
Manitoba.....	455,614	255,211	79
Saskatchewan.....	492,432	91,279	439
Total.....	1,715,189	598,169	187

Western Canada's increase of population in the decade was 1,117,020, which figure represented about 61 per cent of the increase shown by all Canada.

It will be interesting now to see whether the banking development in the western half of the Dominion has kept pace with the growth of population. The banking offices in the four provinces in 1911 and 1901, respectively, were:

Provinces	Banking Offices		Increase Per cent
	1911	1901	
British Columbia.....	211	46	359
Manitoba.....	192	52	269
Alberta.....	220	30 ¹	1,633 ¹
Saskatchewan.....	320		
Total.....	943	128	637

¹ In 1901 Alberta and Saskatchewan were both comprised in the Northwest Territories.

This table shows that so far as number of banking offices is concerned, the increase has been relatively greater than the increase of population. While the population has scarcely trebled, the number of bank offices has increased six-fold.

In order that the reader may grasp the full significance of the details which follow, it is advisable to describe the nature of the banking offices here referred to and the services they perform for the public. It will be remembered that when the western states were passing through the stage in which the western Canadian provinces now are, their financial needs were looked after by a large number of private bankers and small banks. Many of the small banks were run as side lines by enterprising real estate and loan agents. Rates of interest were very high, $1\frac{1}{2}$ and 2 per cent a month being the regular charge in most small places. In numberless cases these so-called private bankers amassed wealth through acquiring on their own terms the land of unfortunate debtors who were crushed by the usurious rates of interest. These conditions, be it remembered, were in evidence in many of the small places. In the larger towns there was more competition, the banks possessed a greater capacity for lending and the borrowers had a better chance. But rates were high there also, as much of the paper had to be rediscounted in the East at seven per cent or thereabouts.

The banking offices established in western Canada are not at all of this description. Twenty-one banks operate the 900 odd branches established in the western provinces at the end of 1911. Roundly one-third of the whole number are accounted for by two institutions—the Union Bank of Canada and the Canadian Bank of Commerce. At the end of 1911 the Union had 160 branches in western Canada and the Commerce had 147. Since then both have established a considerable number of new branches, and the Commerce acquired the fifteen western branches of the Eastern Townships Bank when it absorbed that institution on March 1, 1912. According to the government bank statement, as of October 31, 1912, the total resources of the Commerce were \$242,390,445, and the resources of the Union were \$69,782,860.

Following these two leaders are the Merchants Bank of Canada, assets \$85,180,283, and seventy-seven western branches as at the end of 1911; the Bank of Hamilton, assets \$48,445,752, and seventy-seven western branches; the Northern Crown Bank, assets \$21,914,693, and

seventy-six western branches; the Royal Bank of Canada, assets \$174,593,141, and sixty-three western branches; the Imperial Bank of Canada, assets \$79,215,380, and fifty-six western branches; the Bank of Montreal, assets \$237,182,345, and fifty western branches; the Bank of British North America, assets \$65,762,227, and fifty western branches; the Bank of Toronto, assets \$58,731,059, and thirty-one western branches; the Dominion Bank, assets \$76,098,111, and twenty-five western branches; the Bank of Ottawa, assets \$51,388,311, and nineteen western branches; the Standard Bank of Canada, assets \$40,583,318, and fifteen western branches.

These thirteen banks accounted for 846 of the western branches; the remaining ninety-seven were established by ten other banks, two of which have since been absorbed. By its absorption of the Traders Bank of Canada on September 1, 1912, the Royal Bank of Canada acquired the twenty-three western branches of the Traders.

A number of the banks which are assisting to develop the western provinces in the financial way, and which are not included in the above list, are large and powerful concerns. Thus the Bank of Nova Scotia has assets of \$67,279,856; the Molsons Bank, \$52,221,410; the Quebec Bank, \$12,607,646; the Banque d' Hochelaga, \$30,610,804; the Home Bank of Canada, \$12,899,410. But they each had less than ten branches in the West at the end of 1911. It is to be remembered, too, that practically all of the above-named banks have extensive branch systems in the East as well. Not a few of them have more branches in the East than in the West. The total of bank branches in eastern Canada as yet exceeds the branches in western Canada by about seven hundred. Another point to be carefully noted is that the chief executive office and the control lies in the East in all cases except two. The Union Bank of Canada and the Northern Crown are the only two banks with head offices in the West. The first-named of these institutions was organized and had its head office in the City of Quebec; its stock is held chiefly in the East. But the western business of the bank ultimately assumed such vast proportions as to cause the removal of the head office to Winnipeg a little over a year ago. As the western business of the other eastern banks developed to large proportions, they appointed western superintendents, western inspectors, western supervisors and other executive officers to be domiciled at the western centers.

The foregoing figures give a clear idea as to the kind of banking

offices that have been established in communities of new settlers and in the rapidly growing cities and towns of the West. Before describing the services which the bank branches perform for the public, it will be well to show in what kind of places the bank branches are located. It has often been observed that even under the poorest of banking systems the large towns and cities will be given fairly good banking facilities. But it is only under the soundest and best systems that the small towns and villages get adequate facilities at fair and reasonable cost. Now let us see in what manner the banking offices in western Canada are distributed. A series of tables will set out the particulars so as to be most easily understood:

BANK OFFICES IN THE CITIES

Province	No. of Cities	Aggregate Population	Bank Offices	Inhabitants per Bank
Alberta.....	6	90,252	61	1,480
British Columbia.....	25	203,684	142	1,434
Manitoba.....	4	163,249	65	2,511
Saskatchewan.....	4	62,294	42	1,483
West Canada.....	39	519,479	310	1,676

It will be noted that roughly one-third of the bank offices in western Canada are in the cities. In this class there is an average of 1,676 inhabitants per bank office. In my book "A Rational Banking System," thirty-four of the principal cities in the United States were taken as regards their bank offices and population as in 1908; and the average number of inhabitants per bank office for

BANK OFFICES IN INCORPORATED TOWNS

Province	No. of Towns	Aggregate Population	Bank Offices	Inhabitants per Bank
Alberta.....	27	25,881	55	471
British Columbia ²				
Manitoba.....	24	26,926	47	573
Saskatchewan.....	50	37,504	97	387
West Canada.....	101	90,311	199	454

² British Columbia's population according to census report is all contained in the cities and large electoral districts.

the thirty-four cities was 9,700. Des Moines, with a bank office to every three thousand inhabitants, had the lowest average; and the figures ranged from that up to the average of 27,400 in the case of New York.

Taking the towns next, the table on page 161 shows results.

Relatively to population, the 101 towns in western Canada, have about four times as many bank offices as the cities. The average town is a place with about nine hundred inhabitants.

Finally, we arrive at the incorporated villages, which in western Canada are usually very small places.

BANK OFFICES IN INCORPORATED VILLAGES

Province	No. of Villages	Aggregate Population	Bank Offices	Inhabitants per Bank
Alberta.....	82	26,779	70	383
British Columbia ^a				
Manitoba.....	21	10,190	20	509
Saskatchewan.....	195	31,596	151	209
West Canada.....	298	68,565	241	284

Relatively to population the villages again have more banking offices than the towns. Now, bearing in mind the high standing of each individual bank office and the vast extent of its potential resources (in every case the signatures of the duly accredited officers at the branch, on drafts and other such documents, bind the bank), take particular note of the following.

The average incorporated town in western Canada has about nine hundred inhabitants and two banks; the average incorporated village has 230 inhabitants, and, we might say, one bank—for there is an average of 284 people to each banking office.

That certainly is a remarkable showing. On the average basis practically every one of the towns with 900 population has effective competition in the form of two branch offices of great and powerful banks; and four out of every five villages of 284 souls, have a branch office of a big bank. When these small places in Alberta and Saskatchewan are taken according to actual facts, instead of on the average basis, the showing is even more impressive. Here is a list

^a See foot note to table on towns.

of villages in each of which two great banks were competing for the business of the villagers and of the farmers in the surrounding district at the end of 1911. The names of the villages will, of course, possess no particular meaning or significance for American readers; the population in each case is the significant thing:

VILLAGES IN ALBERTA AND SASKATCHEWAN WITH MORE THAN ONE BANK

Village	Population	Banks
<i>Alberta:</i>		
Alix.....	267	Union, Quebec.
Athabasca.....	227	Imperial, Royal.
Bassano.....	540	Commerce, Union.
Brooks.....	486	Merchants, Union.
Carmangay.....	286	Commerce, Hamilton.
Carstaris.....	270	Merchants, Union.
Castor.....	1,659	Merchants, Traders.
Granum.....	250	Commerce, Hamilton.
Gleichen.....	583	Commerce, Traders.
Lloydminster.....	222	Commerce, Northern Crown.
Munson.....	92	Merchants, Traders.
Staveley.....	245	Commerce, Hamilton.
Strathmore.....	531	Commerce, Union.
<i>Saskatchewan:</i>		
Bounty.....	59	Commerce, Union.
Dundwin.....	239	Hamilton, Northern Crown
Govan.....	390	Quebec, Northern Crown.
Grenfel.....	709	Dominion, Hamilton.
Gull Lake.....	606	Merchants, Union.
Halbrite.....	239	Standard, Weyburn.
Herbert.....	559	Commerce, Union.
Kerrobert.....	320	Commerce, Union.
Luseland.....	104	Royal, Union.
McTaggart.....	134	Standard, Weyburn.
Midale.....	156	Standard, Weyburn.
Radville.....	233	Commerce, Weyburn.
Rosetown.....	317	Royal, Union.
Wynard.....	515	British, Imperial.
Zealandia.....	264	Royal, Union.

To complete the picture I am adding a list of the Alberta and Saskatchewan villages with population less than 100, each one having a branch of a big bank. (See page 164.)

It will be noted that when the banking offices established in all the cities, towns, and incorporated villages, are taken, they do not account for the whole number of bank branches actually in operation in the four provinces. The total number of offices in the cities,

BANKING POINTS IN ALBERTA AND SASKATCHEWAN WITH POPULATION LESS THAN 100, AND NOT INCLUDED IN THE FOREGOING TABLE

Village	Population	Bank, with Assets of
<i>Alberta:</i>		
Barons	75	Union.....\$69,000,000
Islay	90	Merchants..... 85,000,000
N. Norway	61	Merchants..... 85,000,000
Penhold	94	Standard..... 40,000,000
<i>Saskatchewan:</i>		
Adanac	73	Union..... 69,000,000
Belle Plain	82	Hamilton..... 48,000,000
Churchbridge	90	Toronto..... 58,000,000
Colgate	95	Weyburn..... 1,000,000
Duval	81	Northern Crown... 21,000,000
Girvin	39	British..... 65,000,000
Goodwater	75	Standard..... 40,000,000
Gr. Coulee	82	Hamilton..... 48,000,000
Ituna	95	British..... 65,000,000
Jansen	63	Union..... 69,000,000
Kinley	51	Northern Crown... 21,000,000
Lampman	96	British..... 65,000,000
Laura	82	Northern Crown... 21,000,000
Maidstone	97	Standard..... 40,000,000
Marquis	88	Hamilton..... 48,000,000
Netherhill	80	Union..... 69,000,000
Osage	72	Hamilton..... 48,000,000
Pelly	82	Toronto..... 58,000,000
Punnichy	73	British..... 65,000,000
Stornoway	52	Northern Crown... 21,000,000
Summerberry	79	Toronto..... 58,000,000
Tessier	65	Union..... 69,000,000
Tompkins	90	Union..... 69,000,000
Venn	58	Northern Crown... 21,000,000
Viscount	72	Northern Crown... 21,000,000
Webb	75	Union..... 69,000,000

towns, and villages is 750; while the total number in the western provinces is 943. The difference, 193, represents the bank branches in small places which were not incorporated even as villages at the end of 1911. Of these offices Alberta has 34; British Columbia, 69; Manitoba, 60; Saskatchewan, 30.

Where, in all the world, can a similar spectacle be found? Canada has no central bank, possessing a monopoly of note issue and other exclusive privileges, and which is supposed to have a wonderful ability to prevent panics and equalize the interest rate. Nevertheless the great mass of the Canadian people outside the cities and large

towns have banking facilities which I think are superior to those possessed by the people of any European country.

In the current number of *Banking Reform* the editor intimates that the high interest rates in the rural districts of the United States represent one of the minor causes of the movement of American farmers to Canada. He says, "Even in the heart of the Canadian wilderness, far removed from a railroad, the homesteader need not pay more than eight per cent for borrowed capital, whereas in sparsely settled parts of the United States he must often pay from 12 to 15 per cent. The difference in interest is the difference between a scientific banking system and a system which is the laughing stock of the civilized world." And he concludes, "We do not want a branch banking system, but we can procure its advantages, including more nearly uniform interest rates, by revising our banking laws."

It seems unlikely that the residents of the small towns and villages of the United States will be placed on anything like an equality with the residents of similar places in Canada until sound, strong banks are at liberty to establish branches where they will. Probably the most scientific and effective parts of the Canadian bank's equipment are its branch machinery and its issue power.

We have now learned something about the question of how large a settlement in western Canada must be before it can expect to have a chartered bank branch, also something about the size and power of the banks which go into these settlements. It is in order next to discuss the nature of the support which is given to the small community by the branch bank and to ascertain what it is that enables these great banks to place their facilities and services directly at the disposal of such humble communities.

It will be understood that within a village of less than 100 population the bank will not find much business to transact. There would be perhaps less than thirty families. Of course, everybody expects that "the town will grow." The bank shares in this expectation; and, besides, the head office has probably estimated that for the first year or two after the establishment of the branch, it will be operated at a loss. However, no bank branch would be established in a very small village unless the village was surrounded by a good farming country. The bank expects to derive a large part of its business from the farmers—that is the principal reason why it goes into a village of less than 100 souls.

As it is a new country, in which land values are rising and development work much in evidence on all sides, fixed or permanent deposits are not plentiful. There is a considerable amount of transient money. The new settlers bring in cash which lies for a little while; but that is soon expended in equipping the farm. The bank also does some business in exchange—cashing items on other places and transferring funds elsewhere. But its principal functions are to provide currency for the transaction of business and to lend to all local parties worthy of credit. The retail tradesman, as soon as he satisfies the bank that he is an honest, capable man, with perhaps a little capital of his own, can discount from day to day the notes given him by good farmers in settlement of their accounts. He can also on occasions procure direct loans from the bank on giving a good endorser or other suitable security.

This helps him immensely and enables him to deal with the wholesalers on better terms. Everybody in the village who can give the requisite security, down to the blacksmith or tinsmith, can borrow for business purposes.

While the branch banks cannot make long-term loans, on mortgages or otherwise, to the farmer, they can and do enable him to anticipate the receipt of proceeds of his crop. A responsible man can begin to borrow as soon as his seed is in the ground. The bank will advance funds for the purchase of horses, implements, clothing and provisions, for wages, threshing expenses and other expenses incidental to the work of the farm—one condition thereof being that the aggregate of loans to an individual farmer must not exceed the amount which he can repay in full on disposing of his crops in the fall or winter. If a good borrower is hailed out or meets with some other misfortune which prevents him paying off his loans in full, the bank is obliged to wait for its money until he takes off his next crop. The general rate in the new districts is eight per cent. But the low rate of interest which the editor of *Banking Reform* referred to in his comparison of conditions in the United States and Canada is not the only good thing conferred on the community by the branch bank.

It is a matter of common knowledge that in the United States where a brand new settlement is dependent on local note-shavers or so-called banks, they have various devices, apart from 12 to 15 per cent money, for appropriating the hard-earned profits of the settlers. By means of fees for documents, commissions on loans, etc., they

manage to supplement their earnings to a considerable extent. And, as mentioned in an earlier paragraph, there are numberless cases wherein a private lender of this type would make an advance to a farmer or another with the ulterior object of dispossessing him of his property.

Against tactics of that kind the borrowers from the branch bank in the tiny Canadian village are absolutely safe. In the first place the rate of interest they have to pay, eight per cent, gives them a chance to make good. Next the manager of the branch bank is forbidden to engage in any outside business or activity. He must give his whole attention to the bank's business. For any assignments or pledges executed by the borrower on the bank's forms, no charge is made; and there are no fees, commissions or extras except the charges on remitted checks, drafts, etc., which vary from one-tenth to one-fourth of one per cent.

When misfortune places one of its borrowers in the hands of the branch bank, its rules and traditions forbid its officers from taking undue advantage. All they are allowed to do is to recover the funds actually advanced by the bank. If the borrower has a good chance to rehabilitate himself in a reasonable time, the bank will not press him. Under certain circumstances, if he can give the necessary security, it may even lend him an additional sum. But if his condition is hopeless, the bank realizes on its security, and if possible reimburses itself for the loan, interest and expenses of realization. Any surplus, if unattached, goes to the borrower.

Finally we arrive at the question: To what characteristics of the Canadian banking system are the small agricultural communities indebted for the splendid facilities they enjoy? It is not difficult to find the answer. Unrestricted liberty in the matter of establishing branch offices is unquestionably the most important factor; the second is the fact that the power of note issue is not centralized in the government or in a state bank. It is only through the operation of the branch system that the small communities can obtain the banking facilities to which they are entitled. Imagine the reception that would be accorded by Comptroller Murray to an application for a national bank charter coming from a village with but eighty inhabitants. He would say "No! Certainly not. Your village could not support a bank." And he would be quite right; for a village of that size, even if located in the midst of a good agricultural district, could

not give enough business to support an independent bank with full complement of directors and officers. The only chance would lie in the operation of a "bank" as a side line by the local loan and insurance agent; and we have seen what that means in many cases.

Under the branch system a real banking office can be operated at the minimum expense. Two men—a manager and junior—comprise the whole staff. The office is worked on an economical basis, as a part of a system of perhaps twenty or thirty branches in the province or district. As mentioned already, it may be expected to return a loss for the first year or two; and after that the bank may be satisfied if it returns \$100 or \$200 per year for a series of years while the place is growing to a respectable size. The right of note issue figures conspicuously as a means of economical operation. The notes issued by the branch provide the currency in use in the village and surrounding country. The bank has the use of the funds represented by the circulation which is outstanding. And a further stock of unissued notes, which of course represent no cash investment, suffices for till money. The only actual cash the branch need carry would be \$100 or so in silver coins and a few \$1 and \$2 bills for change (the banks cannot issue notes under \$5 denomination). It need not carry anything as reserve against its liabilities; the manager need not concern himself about them at all. The head office has to look out for the liabilities of all the branches. If the branch needs cash of any description, it merely wires the nearest depot branch and the cash probably arrives next day.

When the sub-committee of the National Monetary Commission visited Canada two or three years ago, Hon. Mr. Vreeland questioned Mr. Daniel R. Wilkie, president of the Imperial Bank of Canada, and recently elected president of the Canadian Bankers' Association, on the matter of the branch offices and the issue power. In reply to a question of Mr. Vreeland's, Mr. Wilkie said, "Without our system of currency, without the inducement of being able to supply the currency required from the banks' own issues, we could not keep the bulk of our branches open. If our currency laws were changed and we were not permitted to issue our own notes, nine-tenths of these branches would be closed. It would not pay us. It is only because we have unlimited till money always available. It is only because we have power to issue our own bills that we are opening branches. That is the crux of the whole matter. It is not only the starting

point of our banks, but without it our banking system could never have developed the country to the condition it is in to-day. It could not be done."

It should be remembered that it is a system of free or plural issues that has worked so beneficently in Canada. If there had been established in the Dominion at a comparatively early day, a central bank or banking association with monopoly of note issue the development of the ordinary banks would most certainly have been checked, their usefulness seriously impaired. The great banks of the Dominion owe their greatness to their extensive systems of branches. We have seen that the right of note issue has enabled them to extend their branch systems. Therefore it is clear that if the issue power had been confined to a central bank, the branch systems of the ordinary banks could not have been developed as they have been and they would have been hopelessly dwarfed, to the great injury of the whole country. Those small villages of 100 and 200 population would never have been given bank branches if the issue power were monopolized by a central bank; and the inhabitants of those villages and of large villages and towns would have been left to the tender mercies of the private bankers and the loan sharks.

Under the Canadian system there are no intermediaries between the issue banks and the humble borrower. The connection is direct and intimate. The bank of issue goes right into the country and lends directly to the small people. Mr. H. V. Meredith, the vice-president and general manager of the Bank of Montreal, told the stockholders of the bank at the annual meeting on December 2, 1912, that the loans of the Bank of Montreal to farmers and small traders amount to many millions of dollars. And the heads of the other great banks—the Commerce, the Royal, the Merchants, Imperial, Dominion, etc., could say the same thing.

The financial system of the country is not complicated by a mass of rediscounts. Borrowers have direct access in all parts of the country to the funds of the banks of issue. Of course, Canada is a new country in process of very rapid development, and the demand for money and credit is enormous. Under those circumstances it is inevitable that interest rates on the whole should be well above the rates prevailing in Europe. The higher rates are necessary, for one thing, to attract capital to the country. I venture to say that if the Canadian banking system had been cut after the

European models, it never would have expanded so easily and smoothly with the great growth of the last decade. The monopolies and special privileges would perhaps have been the indirect cause of one breakdown after another. Because the banks are free and equal, because they have been left in full possession of their natural functions, they have developed rapidly and strongly; and they have earned the respect of the whole world for the manner in which they have financed the country's growth.